

Message Text

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ACTION EB-08

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CIAE-00 COME-00 DODE-00 FRB-01 H-02 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-02 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 ICA-20 SP-02 SOE-02
OMB-01 DOE-15 /136 W

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R 110919Z JUL 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 9502
INFO USMISSION GENEVA

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E.O. 11652: N/A
TAGS: ETRD, JA, US, MTN
SUBJECT: STRAUSS-USHIBA FOLLOW-UP: SUMMARY STATUS REPORT

REF: TOKYO 10005

1. SUMMARY: GOJ IS INCREASINGLY CONFIDENT THAT 7 PERCENT ECONOMIC GROWTH RATE WILL BE ACHIEVED. GROWTH TREND IS UP AND INFLATION HAS DROPPED BELOW 4 PERCENT. CLEAR EVIDENCE OF A REVERSAL IN CURRENT ACCOUNTS TREND IS NOT YET APPARENT. HOWEVER GOJ HAS TAKEN STEPS TO INCREASE EMERGENCY IMPORTS AND MITI HAS ISSUED WHITE PAPER URGING IMPORT EXPANSION. BEEF IMPORT TENDERS FOR JULY WERE UP WITH U.S. DEFINITION OF GRAIN FED BEEF USED FOR HIGHER GRADE TERMINOLOGY. LARGER ORANGE QUOTA IS BEING USED. CITRUS STUDY MISSIONS WERE COMPLETED RESULTING IN REAFFIRMATION OF POLICY DECISIONS. FORESTRY STUDY MISSIONS WERE ALSO COMPLETED WITH GOJ ESTABLISHING NEW STANDARDS ON
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KNOTS AND WANE. U.S. FIRMS HAVE BEEN PURSUING POSSIBILITY OF EXPORTING NUCLEAR FUEL AND ACCESSORIES TO JAPAN AS A RESULT OF IKEDA MISSION. ELECTRICAL APPLIANCE AND AUTO-MOBILE TESTING ARE BEING DISCUSSED WITH GOJ THROUGH TRADE STUDY GROUP. TRADE FACILITATION COMMITTEE SRG MEETING BEING PREPARED FOR WEIL VISIT, JULY 24-26. END SUMMARY.

2. INCREASED ECONOMIC GROWTH--JAPAN WILL ACHIEVE A HIGH, NON-INFLATIONARY RATE OF GROWTH AND REITERATES ITS 7 PERCENT GROWTH TARGET FOR JFY-78:

JAPANESE OFFICIALS EXPRESS INCREASED CONFIDENCE THAT 7 PERCENT GROWTH TARGET WILL BE ACHIEVED. TRENDS OF RECENT MONTHS HAVE BEEN FAVORABLE AND FULL EFFECTS OF EARLIER REFLATIONARY BUDGET AND DISCOUNT RATE CUTS SHOULD BE FELT BETWEEN NOW AND END OF 1978. INDUSTRIAL PRODUCTION THROUGH MAY HAS BEEN UP FOR SEVEN CONSECUTIVE MONTHS, THOUGH MONTH-TO-MONTH GAINS HAVE SLOWED RECENTLY. JAN-MAR GNP FIGURES RECORDED STRONG 10 PERCENT (SAAR) GROWTH FOR QUARTER. CONSUMPTION AND HOUSING SHOWING PARTICULAR STRENGTH, WITH FINAL DOMESTIC DEMAND INCREASING AT OVER A 8 PERCENT (SAAR). BETTER BALANCE OF INVENTORIES ACHIEVED IN RECENT MONTHS SHOULD PROVIDE GOOD BASE FOR CAPITALIZING ON ANTICIPATED EXPANSION OF DOMESTIC FINAL DEMAND AS JFY-78 UNFOLDS. MOST PRIVATE FORECASTERS HAVE RAISED THEIR JFY-78 FORECASTS TO THE 5.25-6.00 RANGE FROM THEIR GLOOMY EARLIER PROJECTIONS BUT ARE STILL CAUTIOUS ABOUT ACCEPTING THE MORE OPTIMISTIC OFFICIAL 7 PERCENT FORECAST. GOV'T. LEADERS, INCLUDING PRIME MINISTER FUKUDA, HAVE REPEATEDLY SAID GOJ WILL TAKE TIMELY, EFFECTIVE STIMULUS MEASURES IF THERE IS ANY FALTERING IN THE EXPECTED EXPANSION. INFLATION AS MEASURED BY YEAR-OVER-YEAR CPI FIGURES, HAS DRIFTED BELOW 4 PERCENT RECENTLY

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AND IS LIKELY TO BE IN THE 4-5 PERCENT RANGE FOR THE FULL YEAR.

3. JAPAN'S CURRENT ACCOUNT SURPLUS WILL BE CONSIDERABLY REDUCED IN JFY-78, AND THEREAFTER FURTHER EFFORTS TO REDUCE IT WILL BE CONTINUED, AIMING AT EQUILIBRIUM:

BULGE IN JAN-MAR QUARTER BOOSTED JFY-77 CURRENT ACCOUNT SURPLUS TO \$14 BIL. APRIL AND MAY, FIRST TWO MONTHS OF JFY-78, SAW SURPLUSES OF \$1.3 AND \$1.5 BIL (S.A.). TRADE VOLUME TRENDS ARE MOVING IN THE RIGHT DIRECTION TO CURB SURPLUS BUT THIS DEVELOPMENT HAS TO DATE BEEN SWAMPED BY RAPID ESCALATION OF DOLLAR PRICE OF JAPANESE EXPORTS AS FIRMS TRY TO COMPENSATE FOR YEN APPRECIATION. (SEE TOKYO 9969.) POLICIES AND UNDERLYING TRENDS ARE CONSISTENT WITH A REDUCED SURPLUS, BUT CLEAR EVIDENCE OF A REVERSAL OF THE CURRENT ACCOUNT TREND (IN BALANCE OF PAYMENTS TERMS) HAS NOT YET APPEARED. OFFICIAL STATEMENTS IMPLICITLY ACKNOWLEDGE THAT THE OFFICIAL CURRENT ACCOUNT FORECAST OF A \$6 BIL SURPLUS IN JFY-78 THAT WAS MADE LAST DEC HAS NOW GONE BY THE BOARDS. NO NEW OFFICIAL PROJECTION HAS YET EMERGED BUT KEY MINISTERS NOW TALK

ABOUT A DECLINE IN THE SURPLUS BECOMING EVIDENT AFTER SEPTEMBER. ONE NEW FORMULATION OF THE CURRENT ACCOUNT OBJECTIVE WHICH HAS BEEN HEARD IS MONTHLY SURPLUSES RUNNING AT A \$6 BIL ANNUAL RATE BY THE END OF JFY-78. RECENT STEPS HAVE BEEN TAKEN TO IMPLEMENT THE EXPANDED EMERGENCY IMPORT PROGRAM.

4. TRADE OBJECTIVES -

(A) BASIC EQUITY IN THE U.S.-JAPAN TRADING RELATIONSHIP, (B) SECO, (C) PARITY IN OPENNESS OF BOTH U.S. AND JAPANESE MARKETS, AND (D) COMPARABLE AVERAGE LEVELS OF BOUND TARIFFS:

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MOVEMENT IN THESE AREAS IS PRIMARILY IN MTN IN GENEVA AND WASHINGTON. NO ELABORATION ON OTHER REPORTING ON THIS SUBJECT IS NEEDED.

5. MEASURES TO INCREASE JAPANESE IMPORTS OF MANUFACTURES IN TERMS OF TOTAL VALUE AND SHARE OF TOTAL IMPORTS:

MITI WHITE PAPER RELEASED JUNE 27 STRESSED JAPANESE NEED TO INCREASE IMPORTS OF MANUFACTURED PRODUCTS AND URGED THAT CONCEPTS OF "SELF SUFFICIENCY" BE REEXAMINED FOR PRACTICALITY.

FIRST QUARTER IMPORT DATA NOTED PARA 5 IN LAST SUMMARY STATUS REPORT (TOKYO 10005) INDICATED SLIGHT, BUT ENCOURAGING INCREASE IN RATIO OF MANUFACTURED TO PRIMARY PRODUCT IMPORTS. SECOND QUARTER DATA NOT YET AVAILABLE.

6. INCREASE IMPORTS OF HIGH QUALITY BEEF BY 10,000 MT
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IN JFY 1978:

LIPC ADVISED AGATT JUNE 30 THAT JULY 6 TENDER WOULD BE FOR 5,500 MT OF BEEF, OF WHICH 1500 MT WOULD BE HIGH QUALITY OR GRAIN FED. U.S. TERMINOLOGY WAS USED FOR GRAIN FED BEEF WHILE BOTH AUSTRALIANS AND NEW ZEALAND TERMINOLOGY WAS USED FOR REMAINDER. AUSTRALIA IS UNLIKELY TO BE ABLE TO OFFER GRAIN FED BEEF FOR THIS TENDER AND VIRTUALLY ALL SHOULD BE PURCHASED FROM U.S. IF LIPC CONTINUES TO TENDER AT THE CURRENT RATE, IT WILL EASILY FULFILL THE JAN. 1978 STRAUSS-USHIBA COMMITMENT.

7. INCREASE IMPORTS OF ORANGES FROM 15,000 TO 45,000 MT:

SINCE THE JANUARY STRAUSS-USHIBA AGREEMENT, GOJ HAS ANNOUNCED, FOR JFY 1978, A "GENERAL QUOTA" OF 12,000 MT, AND A "SEASONAL QUOTA"(JUN-AUG) OF 22,500 MT. THIS LEAVES 10,500 MT TO BE ALLOCATED AND FILLED DURING THE REMAINDER OF THE FISCAL YEAR. ALL INDICATIONS ARE THAT THIS BALANCE WILL ALSO BE ANNOUNCED AND UTILIZED BY THE END OF JFY-78.

8. INCREASE IMPORT QUOTA FOR CITRUS JUICE TO 4,000 MT:

THE GOJ IS EXPECTED TO ANNOUNCE THE 3,000 MT CONCENTRATED ORANGE JUICE QUOTA AND THE 1,000 MT CONCENTRATED GRAPE-FRUIT JUICE QUOTA IN DECEMBER 1978, SOMEWHAT EARLIER THAN HAS BEEN THE TRADITIONAL PRACTICE.

9. ESTABLISH AN INTER-INDUSTRY CITRUS GROUP TO REPORT TO BOTH GOVERNMENTS BY NOVEMBER 1, 1978:

THE EXCHANGE OF INDUSTRY CITRUS STUDY MISSIONS HAS NOW BEEN COMPLETED. BOTH THE U.S. AND JAPANESE DELEGATIONS
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BASICALLY REAFFIRMED THEIR RESPECTIVE TRADE POLICY DECISIONS. THE U.S. DELEGATION'S REPORT WAS SUBMITTED TO

AMBASSADOR STRAUSS ON JUNE 19, 1978. THE JAPANESE GROUP IS EXPECTED TO SUBMIT ITS REPORT BY NOVEMBER 1, 1978. THIS UNDERTAKING IS COMPLETE AND ITEM WILL BE OMITTED IN FUTURE REPORTS UNLESS THERE ARE NEW DEVELOPMENTS.

10. DISPATCH A FOREST PRODUCTS GROUP TO THE U.S. NORTHWEST TO EXPAND AND UPGRADE THIS TRADE:

JAPANESE FOREST PRODUCTS STUDY GROUP WAS IN THE U.S. JUNE 20-30 FOR SECOND PHASE DISCUSSIONS WITH U.S. FOREST PRODUCT OFFICIALS, ASSOCIATIONS, AND PRODUCERS. THE JAPANESE FORESTRY AGENCY HAS ESTABLISHED NEW STANDARDS ON WANE AND SPIKE KNOTS WHICH ARE VIRTUALLY IDENTICAL WITH U.S. STANDARDS. CHANGES IN THESE STANDARDS HAD BEEN REQUESTED WHEN U.S. MISSION WAS IN TOKYO, MARCH 6-7. THIS UNDERTAKING IS COMPLETE AND ITEM WILL BE OMITTED FROM FUTURE REPORTS UNLESS THERE ARE NEW DEVELOPMENTS.

11. DISPATCH MISSION TO U.S. TO EXPLORE PURCHASES OF ELECTRIC POWER PLANT EQUIPMENT:

REPRESENTATIVES OF A LEADING U.S. MANUFACTURER OF NUCLEAR POWER RELATED ITEMS WHO HAD MET WITH IKEDA MISSION VISITED JAPAN IN LATE JUNE FOR FOLLOW-UP MEETINGS WITH INDUSTRY AND MITI OFFICIALS. AMERICAN BUSINESS REPS EXPLAINED THAT THEIR CONCEPT OF ELECTRIC POWER PLANT MISSION HAD BEEN THAT NUCLEAR FUEL AND FUEL RELATED ACCESSORIES CONTINUED TO OFFER GOOD MARKET POSSIBILITIES WHICH THEIR COMPANY INTENDED TO PURSUE.

WITH PRIVATE COMMERCIAL INTEREST NOW IN EVIDENCE, EMBASSY BELIEVES THAT NO FURTHER REPORTS ON THIS TOPIC ARE NEEDED IN MONTHLY STRAUSS-USHIBA ROUNDUP.

12. JAPANESE CABINET DECISION TO INCREASE OPPORTUNITIES
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FOR FOREIGN SUPPLIERS UNDER GOVERNMENT PROCUREMENT:

GOJ HAS CONTINUED ACTIVE PARTICIPATION IN MTN GOVERNMENT

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PROCUREMENT NEGOTIATIONS (GENEVA 8083), DESIGNED TO STRENGTHEN JAPANESE IMPLEMENTATION OF THE CABINET DECISION OF JAN. 13 AND TO LIBERALIZE PROCUREMENT IN GENERAL.

13. SIMPLIFICATION OF JAPANESE IMPORT INSPECTION REQUIREMENTS:

AS RESULT TRADE STUDY GROUP EFFORTS, MITI ELECTRICAL APPLIANCE TESTING OFFICIALS HAVE BEGUN DIRECT DIALOGUE WITH U.S. EXPORT MANUFACTURERS, AND MITI HAS REQUESTED IMPORTERS TO DESIGNATE QUALIFIED PERSON TO PARTICIPATE IN CONSULTATIVE COMMITTEE PROCESS. (TOKYO 8445.)

DISCUSSIONS ABOUT AUTOMOBILE INSPECTION ISSUES HAVE CONTINUED, ALBEIT WITH SOME DIFFICULTIES, AND PLANS FOR JAPANESE WITNESS-TESTING OF NEW MODELS IN U.S. HAVE BEEN ANNOUNCED. (TOKYO 11857.)

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14. GOJ WILL PURSUE A POLICY OF AID UNTYING:

DURING JUNE 1978 JAPANESE GOVERNMENT MADE LOAN COMMITMENTS IN AMOUNT OF \$46.3 MIL, \$7.0 MIL OF WHICH WAS TIED AND \$39.3 MIL OF WHICH WAS LDC UNTIED. THESE COMMITMENTS WERE PURSUANT TO EXCHANGES OF NOTES COMPLETED BEFORE THE BEGINNING OF THIS FISCAL YEAR WHEN NEW POLICY OF UNTYING AID WENT INTO EFFECT. A COMPLETE REPORT ON JAPANESE PERFORMANCE OVERALL WAS CONTAINED IN A LETTER FROM HANAOKA (MITI) TO DEP. ASST. SEC. HEGINBOTHAM.

15. REVIEW PROCEDURES; INCREASED SUPPORT FOR THE TFC,
AND FUTURE MEETINGS AT VARIOUS LEVELS TO DISCUSS PROGRESS:

JAPANESE OFFICIALS CONCERNED WITH TFC RECENTLY MET WITH
CONCERNED U.S. OFFICIALS IN WASHINGTON. KEY MITI REPS
HAVE BEEN REASSIGNED AS PART OF THE MINISTRY'S NORMAL
TRANSFER CYCLE, SO EMBASSY DISCUSSIONS WITH NEW TFC
OFFICIALS ARE BEING INITIATED AND WILL BE REINFORCED BY
ASST. SEC. WEILS'S VISIT TO JAPAN JULY 24-26 FOR THE
SENIOR REVIEW COMMITTEE MEETINGS. MANSFIELD

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